Appointed Partner For
Local Content Verification

\[ \text{LC} = (1 - \frac{x}{y}) \times 100 \]
The SABS is a statutory body that was established in terms of the Standards Act, 1945 (Act No.24 of 1945), and continues to operate in terms of the latest edition of the Standards Act, 2008 (Act No.8 of 2008), as the national standardisation institution in South Africa, mandated to:

- Develop, promote and maintain South African National Standards (SANS).
- Promote quality in connection with commodities, products and services.
- Render conformity assessment services and assist in matters connected therewith.

The SABS provides services that directly impact on the performance of companies, individual industries and the economy by lowering the risk of product and service failures, while breaking the information asymmetry on market requirements. The SABS provides a catalyst for economic growth through quality assurance.
GOALS

The goals of the SABS are aligned with those of the Department of Trade and Industry (the dti) and the broader government effort to grow the South African economy. In the next five years the SABS will work towards realising the following goals:

Provide standardisation and conformity assessment services that facilitate development and regulation and regional economic activity, and support the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP).

The SABS will increase the output of relevant standards and conformity assessment services to meet the needs of the South African economy and earn revenue to finance its expansion. In this regard the SABS will develop plans to meet each agreed mandate from regulators, policy makers and industry stakeholders.

The SABS will therefore continue to support the development of sectors by developing standards for conversion into regulations by the National Regulator for Compulsory Specifications (NRCS) and other regulators, for the IPAP, Consumer Protection Act (CPA) and various policies, amongst others. The SABS will continue to work with stakeholders to ensure the relevance of its outputs.

Allow broader participation and access to the national standardisation process and services.

The SABS develops national standards through a consensus of participants in the development process. The quality of the national standards is a function of the extent to which these reflect the true interests of society.

The SABS will increase its national footprint and provide greater access to its services by using a combination of technology and new training venues in other regional centres.

Develop standards and provide conformity assessment services that protects the integrity of the South African market.

Standards specify requirements for entry into a market and are often used to make purchasing decisions. The SABS will endeavour to ensure that the technical barriers to entry stemming from the national standards are appropriate for the developmental needs of the country. The SABS has established an economic impact unit in the Standards division to evaluate the impact of standards and conformity assessment services on the South African economy.

Provide the conformity assessment services to support growth of nascent industries.

In order to be able to deepen and expand its services, the SABS must continue to grow its external commercial revenue base. This growth will fund the resuscitation of the organisation to meet its mandate in the face of rapid technological advancement. The SABS will pursue a relentless growth strategy for the next three years in order to guarantee a sustainable flow of these services to the country in the long term. SABS services cannot simply be substituted by competitors as they often pursue narrow profit objectives while the SABS is part of the state’s economic development infrastructure and carries a broader South African brand integrity.
Core VALUES
As the SABS transforms and moves towards a culture of high performance and quality service provision, it is guided by the following values:

Impartiality
Not showing favouritism towards a person or business for personal gain. Basing decisions on objective criteria, rather than on the basis of bias, prejudice, or preferring the benefit to one person over another for improper reasons.

Innovation
Enhancing, supporting and maintaining positive change. Continuously finding innovative ways to execute our responsibilities for sustainable increased productivity to benefit the SABS and the South African economy.

Accountability
Acknowledging and assuming responsibility for actions and decisions and committing to report, explain and be answerable for resulting consequences.

Integrity
Being respectful.
Being honest and trustworthy.
Being professional at all times.
Being loyal to the SABS, our country and its people.
Performing our duties with care and dedication – paying attention to detail.
Being fair and transparent.

Quality
Ensuring that all activities and behaviours enforce the SABS as a brand of quality. Having pride in the quality of the outputs.
Giving due attention to internal quality systems and being proud of practising what is preached.

Customer Centricity
Providing proactive, responsive feedback to employees and customers, ensuring that the value of SABS to customers is articulated.
Acknowledging the needs of customers and putting the customer first.
Having the ability to constantly and consistently meet and exceed customers’ expectations.
Appointed Partner
For Local Content Verification
Local Content Defined

As a renowned quality assurance provider in South Africa and beyond, the South African Bureau of Standards (SABS) has been appointed by the Department of Trade and Industry (the dti) as the verification Authority for Local Content in South Africa.

Local Content is that portion of goods, works and services that have been generated and produced in South Africa. Companies that import raw material and convert this raw material in South Africa also contribute to local content to the extent that the South African value-added processes and additional inputs count as Local Content.
Local Content Understood

Public procurement is one of the key industrial levers in the Industrial Policy Action Plan (IPAP). The revised Preferential Procurement Policy Framework Act (PPPFA) regulations, which came into effect on 7 December 2011, empowers the Minister of Trade and Industry to designate industries, sectors and sub-sectors for local procurement at specified levels of local content.

Through local procurement, a policy lever is provided, amongst others, to minimise import leakages, which represent an outflow of funds whilst at the same time attempting to increase both, aggregate demand and supply in the South African economy.

An important strategic approach is to use government’s leveraging muscle as a ‘large buyer’, to influence how much is locally manufactured, to promote strong, sustainable growth in the manufacturing sector, leading to new business opportunities, job creation and skills development.

All national and provincial departments, all municipalities, all entities listed in terms of Schedules 2 and 3A and 3B as well as all other government agencies and State Owned Companies are required to adhere to the Instruction Note as issued by National Treasury in relation to the procurement of goods and services where minimum local content thresholds have been prescribed.

Similarly suppliers are required to meet and where possible exceed the prescribed minimum content threshold in order to continue providing goods and services to the public sector.

Local Content and the ‘verification’ procedures form part of the implementation of the Industrial Policy Action Plan (IPAP) under the mandate of the dti.
Local Content Sectors

To date, several sectors and sub-sectors have been designated for local production with minimum Local Content thresholds, these include:

- Rail rolling stock
- Pylons
- Bus bodies
- Canned/processed vegetables
- Textiles, clothing, leather, footwear
- Furniture
- Set-top boxes
- Power and telecom cables
- Solar water heaters
- Valves
- Manual and pneumatic actuators

Regular updates on new designations are communicated to the public via National Treasury.

For the latest list of designated sectors, go on to:

http://www.treasury.gov.za/divisions/ocpo/sc/PracticeNotes/default.aspx
Local Content Verified

A crucial aspect of Local Content is its verification; the SABS has been appointed the verification agency for Local Content in South Africa in terms of the amended regulations to the Preferential Procurement Framework Act, Act 5 of 2000.

The SABS will conduct an audit made up of two parts. One part will verify transactional documentation related to the purchasing or manufacturing of the Local Content claimed by a supplier. The second part of the verification process will be an onsite technical verification of the local content purchased or manufactured.

Should the audit successfully verify the Local Content requirement against the threshold, the SABS will issue a Local Content Verification Certificate.

On-going surveillance and “spot checks” by the SABS throughout the duration of the contract will ensure that the supplier adheres to the Local Content requirement.

There is a cost to the Local Content Verification activity of the SABS, the cost of which is based on audit time and the respective size of the designated product’s bill of material.
Local Content Process

- The dti forwards the winning bidder’s information to SABS
- SABS, the dti and the Procuring Organ of State, scopes the verification process
- Quotation Process with the winning bidder
- Verification Audit Process
- SABS’s Approvals Board – Verification Decision
- Local Content certificate creation
- Database entry and maintenance

Local Content Provides

The SABS Local Content verification will provide quality assurance as to the level and integrity of local content in the goods, works and services of suppliers. This verification will provide an independent benchmark that can be trusted and relied on by national, provincial and local government departments, municipalities, state owned institutions, science councils, government agencies and other public sector institutions.

In order to further promote and certify genuine Local Content, SABS will provide a database that will quantify Public Procurement in the respective designated sectors, indicating the impact of Local Content procurement.

A Local Content Verification Certificate issued by the SABS certifies that a supplier has adhered to legislative requirements in terms of Local Content. It also confirms that the supplier is committed to promoting local employment and contributing to economic growth in South Africa.

It can also enable suppliers to achieve Stage 1 Compliance with the Preferential Procurement Policy Framework Act (PPPFA) Act 5 of 2000. SABS also provides training on Local Content Verification; this training equips bidders and procurement officers to understand and complete the various documentation required by the PPPFA.

For further details view the SABS Training Brochure on the SABS website.
Measuring Local Content

As an institutional collective, both the public and private sector would benefit most from metrics that are standardised, relevant and with wide acceptance at a global level. It is in this context that the South African Technical Specification, SATS 1286:2011 has been adopted as the national instrument for measuring Local Content.

Baseline Information and monitoring services

The SABS, as the sole Agency appointed for Local Content Verification, will provide technical capacity at the disposal of the public* sector to respond to the procurement transformation framework, through the Baseline Information and Monitoring Service.

Recognising that the first step within the process of procurement transformation is to understand where an organisation is currently positioned in respect of Local Content compliance from the perspective of procurement as well as manufacturing. By having a place to start, role players and stakeholders will be better positioned to chart the way for future supply chains and have a better understanding of the depth to which each will be replacing imported products with locally manufactured goods.

Further, whilst the Baseline Information and Monitoring service focuses on goods regulated by designation, it also covers the verification of non-designated local suppliers, thereby adding value to local content transformation through an entire supply chain over and above the designated thresholds.

* All national and provincial departments, all municipalities, all entities listed in terms of Schedules 2 and 3A and 3B as well as all other government agencies and State Owned Companies.
Approach and Methodology

The SABS will be placing its technical capacity at the disposal of SOCs to respond to this procurement transformation framework. The SABS recognises that new administration requirements are best served with the simplest and lowest cost procedures.

In order to report on performance, SOCs require measurement and evaluation instruments. As an institutional collective, SOCs would benefit most from metrics that are standardised, relevant and with wide acceptance at a global level. The SABS recognises that SOCs also need to evaluate transformation over time in terms of the depth to which they are replacing imported content with locally manufactured goods and the SABS has therefore defined the first steps in the Local Content transformation required for SOCs.

What this will involve is a ‘baseline assessment’ on exactly where the SOC is in terms of its local content levels, so that the organisation can monitor progress on Local Content compliance. It’s about having somewhere to start so that all role players are aware of stakeholders’ expectations and of how the organisation can chart a way forward for future supply chain management. The SABS will present the SOC with a ‘Local Content Baseline’ report that will include a risk analysis of areas where the organisation needs to take strategic action to improve the conditions for compliance.

The SOC will ensure the following information readily available for a period to perform the baseline verification:

- Procurement Transactions Number
- Suppliers Name and Address
- Product or Service
- Transaction Value
- Contract Period
- Estimated Imported Content per Transaction
- Contract evaluation information (Annexure C)

The SABS will provide the SOC with a ‘Local Content Baseline’ Report. On the basis of this information and the support from the SABS, the SOC will then be able to plan key performance indicators on baseline progress in local content transformation within the SOCs supplies chain. The SABS will also provide verification services to the suppliers within the SOC supplier database for Local Content prioritised products in terms of Competitive Supplier Development Programme (CSDP) or PPPFA section 9.3 commitments made with the Shareholder. The schematic below illustrates the process and requirements.
Cost of Services

Baseline assessments: The SABS cost for the three week assignment amounts to is based on the procurement transactions that occur in an SOC.

A standard per hour fee will be used to determine total costs of the baseline verifications.

There will be an additional cost if the SABS is required to further assist the SOC in identifying products and sourcing data that should be in the SOC supplier database.
Appointed Partner For Local Content Verification

Frequently Asked Questions

LC = (1-x/y)*100
Frequently Asked Questions

Q. Why do suppliers in certain sectors have to include Local Content when providing goods, works and services to users in the public sector?

In terms of revised regulations to the Preferential Procurement Policy Framework Act (PPPFA), Act 5 of 2000, which came into effect on Wednesday, 7 December 2011, all suppliers in designated sectors will have to meet the set minimum threshold requirements for Local Content when tendering.

Q. What is the role of the SABS?

SABS is a trusted standardisation, quality assurance and verification provider. Acting on behalf of the Department of Trade and Industry (the dti), it has been appointed the Verification Agency for Local Content in South Africa in terms of the amended regulations to the Preferential Procurement Framework Act, Act 5 of 2000.

Q. Is there a cost to the Local Content Verification?

There is a cost to the Local Content Verification; this cost is based on audit time and the respective size of the bill of material of the designated product.

Q. Why is Local Content important?

Local Content verification is part of the implementation of the Industrial Policy Action Plan (IPAP) and is an initiative of the dti, directed by Treasury regulations. Local Content supports the New Growth Path by developing the industrial infrastructure of South Africa and the skills of South Africans.

Q. How will the SABS verify Local Content?

The SABS will conduct an audit made up of two parts. One part will verify documentation related to the purchasing or manufacturing of the Local Content claimed by a supplier. The other will be an onsite technical verification of the Local Content purchased or manufactured. Should the audit successfully verify the Local Content requirement against the threshold, the SABS will issue a Local Content Verification certificate.

On going surveillance and spot checks by SABS throughout the duration of the contract will ensure that the Local Content requirement is adhered to by the supplier.
Q. How is Local Content calculated?

Local Content is calculated by using the standard formula:

\[ \text{LC} = (1-\frac{x}{y}) \times 100 \]

Where LC is Local Content, x is the imported content in Rand and y is the tender price in Rand.

The SABS approved technical specification number SATS 1286:2011 is accessible at www.sabs.co.za under the heading “Local Content”.

Q. Where can the regulation for Local Content be found in the Preferential Procurement Regulations, 2011 made in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) Local Content?

The regulation for Local Content can be found in point 9(1) of the regulations, which prescribes that local production and content is of critical importance in the case of designated sectors. Such bids must be advertised with the specific bidding condition that only locally produced goods, services, works or locally manufactured goods, with a stipulated minimum threshold for local production and content, will be considered.

Q. What documents and information are required when submitting a bid for a tender in respect of Local Content Verification?

Suppliers are required to submit a Declaration of Local Content form as part of the bidding documents. The Standard Bidding Document SBD6.2 or MBD 6.2 must form part of all bids invited and must be completed when submitting a bid.
Frequently Asked Questions

This must be completed in line with the requirements of SATS 1286:2011 and the Guidance Document for the calculation of Local Content. Local Content Declaration Templates Annexure C, D and E must be completed, as they are important for the calculation, measurement and verification of Local Content.

Q. Where can Standard Bidding Documents SBD 6.2 or MBD 6.2 be accessed?

They can also be accessed on the National Treasury website: http://www.treasury.gov.za/divisions/sf/sc/PracticeNotes/default.aspx

Q. What is Annexure C?

Annexure C is the Local Content Declaration Summary Schedule. This includes information on tender item numbers, list of items, tender price, exempted imported value, tender value net of exempted imported content, imported value, local value, Local Content percentage, tender quantity, total tender value, total exempted imported content and total imported content.

Q. What is Annexure D?

Annexure D is the Imported Content Declaration form. It is a schedule that supports Annexure C and Annexure E. Information on exempted imported content, information on content directly imported by the tenderer, information on content imported by a 3rd party and information on foreign payments will be provided by the supplier or potential supplier on this form.

Q. What is Annexure E?

Annexure E is the supporting schedule to Annexure C. Information on the items purchased, local suppliers, value, manpower costs, factory overheads, administration overheads and markup will be provided by the supplier or potential supplier on this form.

Q. How can a supplier or potential supplier become certified for Local Content?

Download the SABS Local Content application form from the SABS website: www.sabs.co.za.
Q. What are the stages involved in evaluating a bid?

According to the Preferential Procurement Policy Framework Act (PPPFA) Act 5 of 2000, a two-stage evaluation process may be followed to evaluate bids received. The first stage is the evaluation of the stipulated minimum threshold for local production and content and functionality. The second stage is the evaluation in terms of the 80/20 or 90/10 preference point system.

Q. Why is Local Content certification important for a supplier?

Local Content Verification Certificate certifies that a supplier has adhered to legislative requirements in terms of Local Content. It is also confirmation of a supplier’s commitment to promoting local employment and contributing to economic growth in South Africa. By obtaining a Local Content Verification Certificate, a part of Stage one compliance to Preferential Procurement Policy Framework Act (PPPFA) Act 5 of 2000 can be achieved.

Q. Which sectors does Local Content affect?

Please refer to the website:

http://www.treasury.gov.za/divisions/ocpo/sc/PracticeNotes/default.aspx

Q. How does the SABS Local Content verification contribute to South Africa’s economy?

SABS Local Content verification process contributes to South Africa’s economic growth and supports the New Growth Path by promoting and certifying genuine Local Content.

SABS will provide a database that will quantify Public Procurement in the respective designated sectors, thereby indicating the impact of Local Content procurement.
Frequently Asked Questions

Q. How will Local Content verification assist the public sector?

SABS Local Content verification will provide quality assurance as to the level and integrity of Local Content in the goods, works and services of suppliers. This verification will provide an independent benchmark that can be trusted and relied on by national, provincial and local government departments, municipalities, state-owned institutions, science councils, government agencies and other public sector institutions.

Q. Can the dti request certificates confirming the authenticity of declarations made in respect of Local Content?

Yes, the dti has the right, as and when necessary, to request auditors’ certificates confirming the authenticity of the self-declarations made in respect of Local Content. A Local Content Verification Certificate issued by SABS is the independent check, which will confirm to the dti that a supplier has adhered to the legislative requirements in terms of Local Content.

Q. Who will cover the costs of obtaining a Local Content Verification Certificate?

The successful tenderer will cover the costs of obtaining and retaining a Local Content Verification Certificate for the bid once it has been awarded. For more information on the costs involved, contact the SABS on: 0861 277 227 or via email: localcontent@sabs.co.za

Q. Once a supplier has received a Local Content Verification Certificate from SABS, will that certificate apply for all other bids it may submit to the same public entity?

No. Each tender is evaluated on its own merit. Should the supplier’s bid for another service be successful, it will need to apply to the SABS for a certificate for that particular bid. A separate Local Content Verification Certificate will then be issued once compliance has been established by the SABS for that bid.
Q. In terms of SBD 6.2, a bid may be disqualified if the bidder fails to declare that the Local Content Declaration Templates (Annexure C, D and E) have been audited and certified as correct. However, such a declaration will have to be made prior to the tender being awarded, at a time when no purchases have been made or formal contracts entered into. This means that it will not be possible to conduct an audit at this stage. What happens in this case?

There is no requirement to audit a tender at submission stage as no costs have been incurred. The Local Content at this stage is a self-declaration that the tenderer has applied its mind to the Local Content calculation and is truthfully declaring the most accurate information on hand at the time of submission of the tender. The organisation’s accounting officer or financial auditing functions needs to verify accuracy of the information submitted by signing the declaration.

Once the tender is awarded, the actual costs and Local Content of the contract items are subject to the SABS verification audit.
Q. When does the dti get involved with the process?

Once bids are awarded, the dti must be notified of all the successful bidders and the values of the contracts. The dti must also be provided with copies of the contracts, the SBD / MBD 6.2 certificates together with Declaration C, which was submitted by the successful bidder.

Q. What is the duration of the audit and certification process?

The full requirement depends on the scoping of the audit, that is, the depth (supplier tier levels) of the audit. The audit scoping will be determined in consultation with the dti after receiving the necessary documentation on award of the tender.

Q. When will SABS commence with the Local Content audit?

The audit will commence as soon as possible after the winning bidder’s documents have been forwarded to the dti by the public entity. The timeframe will be determined by the audit scoping between the dti and the SABS. The public entity will be invited to attend.

Q. What happens if the duration for audit and certification takes longer than expected, resulting in a failure of submission?

There will be no delay in auditing on the part of the SABS. A problem may arise where the company that is awarded the tender, or one of the company’s suppliers that are subject to audit, does not have the necessary documentation in order.

Where source documents are not available, the goods may be assumed to be imported. The regulations clearly advise those who submit tenders to ensure that they have performed due diligence to ensure that their supply chain does not dilute the minimum threshold requirements.

Q. The methodology for undertaking the Local Content Declaration Templates refers to SABS (SATS 1286:2011). This document states that the auditor is responsible for the accuracy of including all-important content in the supply chain. The document does not state how deeply the supply chain should be interrogated i.e. should tier 2, 3 and 4 or more suppliers be included in the audit?
Those who submit tenders are required to ensure that they have performed due diligence to ensure that their supply chain does not dilute the minimum threshold requirements. The public entity will be invited to the process.

Q. Many suppliers are unable or unwilling at this time, to break down imported costs by freight and duties or provide supplier names, as they fear giving away their competitive advantage. Will it suffice for the purposes of the pre-award if these elements are not completed, but a commitment on the imported content values is made?

If a supplier to the tenderer cannot or will not submit details of their imports, then the full cost to be paid to this supplier by the tenderer is by default assessed as imported content. In this case the details of imported items will not be broken down on the annexure, and only the price paid by the tenderer in ZAR will appear in the appropriate column on the annexure. This was carefully considered in the drafting of the documents and it was anticipated that some importers would not want to disclose the landed cost of their imports. It is for this reason that the default clause was added.

Q. Does the dividend payment by local companies with foreign shareholding qualify as Local Content?

Dividend does not qualify as Local Content. As an income distribution after tax, it has nothing to do with Local Content. Foreign currency payments on annexure D relate only to payments on the specific contract in question like engineering fees, royalty on designs and overseas assistance, all paid in foreign currency.

Q. Does hedging costs qualify as Local Content? For example, the delivery schedule for locomotives is over a five-year period. As the Rand is a volatile currency, hedging costs will be included in the tender price. Hedging is not related to the imported content of the tender but is a type of insurance cost. Can hedging be counted as Local Content if this lies with a South African entity?

Hedging relates to forward cover and is a speculative action by the tenderer. It is an instrument to cover foreign currency payments and is not Local Content even if paid for locally.
It is a cost of importation. The use of Local Content is encouraged therefore any imports must be penalised with costs directly related to imports.

Q. Do salaries of expats with work permits count as Local Content given that they will be living in South Africa and will be liable to pay some tax?

The nationality of the workers is not the issue. The issue at stake is whether they are paid in ZAR. If so, then this is Local Content. If paid in a foreign currency, then this must be declared as imported content on annexure D.

Q. Can we off set some of the localisation requirements to meet Local Content thresholds for the contract we are tendering for? For example, if component A cannot be manufactured in South Africa but we have identified a local supplier that can be developed to produce another component that could be integrated into our supply chain. They could then export this product to the USA and other countries. Can the value of exports from South Africa be used to off set some Local Content requirements?

The Local Content programme for preferential procurement does not address the exportation of components, only the Local Content of the goods, services and work purchased by the Tender Authority. There are no allowances for off sets and the tenderer must look elsewhere for incentives for exports.

Q. When investment in capital equipment and plan is charged to the bidder in the price from suppliers through amortisation, can that investment be claimed as Local Content?

It is best to answer this question by using an example: Bidder B is acquiring 200 components from local supplier X in South Africa. In order to manufacture the components, supplier X will have to invest in equipment for production purposes. The piece of equipment has a life span of ten years. Built into the production costs over a ten-year period will be the amortisation of the equipment.
The total production cost per year can be divided by the number of units of the component produced. Each component therefore will have the amortisation built into the price the supplier quotes. In this case Bidder B. The unit price of the component will not have the full amortisation written-in just for the supply of the 200 components to Bidder B. Supplier X has to distribute the amortisation across production for all suppliers, not just Bidder B and based on ten percent amortisation for that particular year.

Q. In many tenders, an item can consist of many line items, which include sub-components that can be imported from different countries. If all imported content values are converted to the relevant USD exchange rate, will that suffice pre-award for local suppliers that have not been identified?

This is feasible at pre-award stage.

Q. The supplied guidelines for completing supporting annexures C, D and E require suppliers to provide the foreign currency value of the product(s) imported directly by the tenderer disclosed in the commercial invoice accepted by South African Revenue Services (SARS). At this stage of the bidding process these invoices will not be available. What supporting documentation is acceptable to the dti and the public entity which can be signed by the auditor?

Quotations from the suppliers can be used.

Q. In what instances does imported steel count as Local Content?

Please refer to the instruction notes according to the designated sector.

Q. Are exemptions to the requirements inflexible?

Exemptions are a dynamic process managed by the dti. Organisations need to apply to the dti for exemptions per tender.
Download the SABS Local Content application form from the SABS website:

www.sabs.co.za